

Message Text

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TO SECSTATE WASHDC 7811
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E.O. 11652: N/A
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SUBJECT: CURRENT FIANANCE MINISTRY VIEWS ON THE BELGIAN FRANC

REF: BRUSSELS 8159

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1. SUMMARY: BELGIAN FIANCNCE MINISTRY INTERNATIONAL

COUNSELOR JACQUES VAN YPERSELE BELIEVES THAT THE GOVERNMENT'S CONTINUED SUPPORT OF THE FRANC WITHIN THE SNAKE IS JUSTIFIED IN TERMS BOTH OF BELGIAN SELF-INTEREST AND OF ECONOMIC ORTHODOXY. HE ARGUES THAT DEVALUATION WOULD DO LITTLE FOR BELGIUM'S STILL HEALTHY EXPORT PERFORMANCE WHILE TOUCHING OFF A NEW WAVE OF INFLATION INTERNALLY. THE GOVERNMENT IS RATHER ATTEMPTING TO WRING OUT INFLATION BY INTERNAL MEANS. VAN YPERSELE POINTS TO THIS YEAR'S WAGE MEASURES, TEMPORARY ADJUSTMENT OF THE COST-OF-LIVING INDEX, AND A BALANCED BUDGET IN 1977 AS STEPS IN THIS DIRECTION. HE FORESEES LITTLE POLITICAL OR LABOR UNION OPPOSITION TO THE CURRENT SNAKE ORIENTATION OF BELGIAN ECONOMIC POLICY-- AND ALSO IS NOT CONCERNED BY ITS POSSIBLE DEPRESSIVE EFFECTS ON ECONOMIC REVIVAL, FEELING THAT A SLOWDOWN MAY, IN FACT, BE DESIRABLE. EXTERNALLY, VAN YPERSELE IS CONFIDENT OF BELGIUM'S ABILITY TO STAY THE COURSE, ALTHOUGH AN EXIT FROM THE SNAKE BY THE DANISH KRONE COULD DEAL THE FRANC A SEVERE PSYCHOLOGICAL BLOW. DESPITE THESE PROBLEMS, THE FINANCE MINISTRY CONTINUES TO SUPPORT THE GENERAL FLOATING RATE REGIME.

2. IN OUR VIEW, VAN YPERSELE'S REMARKS, ALTHOUGH PROFESSIONALLY OPTIMISTIC, ARE A USEFUL GUIDE TO CURRENT BELGIAN THINKING ON FINANCIAL POLICY. THE GOVERNMENT'S COURSE MAY INDEED BE SUSTAINABLE THROUGH THE REST OF 1976-- BUT GROWING LABOR UNION CONCERN WITH ITS EFFECTS MAY MAKE ITS IMPOSITION MORE DIFFICULT NEXT YEAR. END SUMMARY.

3. IN CONVERSATION WITH AN EMBASSY OFFICER ON AUGUST 23, FINANCE MINISTER DE CLERCQ'S INTERNATIONAL COUNSELOR, JACQUES VAN YPERSELE, DISCUSSED AT SOME LENGTH BELGIUM'S NAKE-ORIENTED FINANCIAL POLICIES. WE BELIEVE HIS EXPOSITION, WHICH DIFFERS SOMEWHAT, AT LEAST IN EMPHASIS, FROM THINKING IN THE NATIONAL BANK (SEE REFTEL), IS A USEFUL GUIDE TO UNDERSTANDING CURRENT BELGIAN GOVERNMENT INTERNAL AND INTERNATIONAL VIEWS IN THE FACE OF CONTINUING EXCHANGE INSTABILITY ON EUROPEAN MARKETS.

4. VAN YPERSELE BELIEVES BELGIUM IS RIGHT IN TERMS BOTH OF HER OWN INTERESTS AND OF ECONOMIC ORTHODOXY TO TAKE THE STRENUOUS MEASURES IT IS FOLLOWING IN ORDER TO REMAIN WITHIN THE SNAKE.

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IN TERMS OF HER OWN INTERESTS, A DEVALUATION OR DOWN-FLOAT OF THE BF WOULD RAISE IMPORT PRICES ACROSS THE BOARD; WEST GERMAN IMPORTS, ABOUT A THIRD OF THE TOTAL, WOULD BECOME PARTICULARLY EXPENSIVE. ANOTHER SERIOUS EFFECT WOULD BE THE ALMOST CERTAIN DRIFT DOWN VIS-A-VIS THE DOLLAR, SINCE MOST OF BELGIUM'S RAW MATERIAL IMPORTS, INCLUDING CRUDE OIL, ARE DENOMINATED IN DOLLARS. THE INCREASE IN THE PRICE OF IMPORTS WOULD TRANSLATE QUICKLY INTO A ROUND OF INDEXED WAGE INCREASES

WHICH WOULD, BEFORE LONG, SERVE TO NULLIFY ANY BENEFITS OF A DEVALUATION TO BELGIAN EXPORTS. (THE BELGIAN GOVERNMENT IS HIGHLY SKEPTICAL OF THESE SUPPOSED BENEFITS, ANYWAY, ACCORDING TO VAN YPERSELE. EVEN IN NEIGHBORING ECONOMIES SUCH AS WEST GEMANY, FRANCE AND THE UK, WHERE WAGE INDEXATION DOES NOT EXIST TO THE SAME EXTENT AS IN BELGIUM, HE SAID THAT PARITY CHANGES UP AND DOWN RESPECTIVELY DO NOT SEEM TO HAVE HAD ANY CLEAR EFFECT PRO OR CON ONEXPORT PERFORMANCE.) BELGIUM BELIEVES THAT ONCE SHE STARTS DOWN THE ROAD OF TRYING TO HANDLE HER INTERNAL WAGE/INFLATION PROBOEMS BY DEVALUING, SHE IS ON A SLIPPERY SLOPE WITH NO END IN SIGHT.

5. THIS IS ALL THE MORE SO BECAUSE VAN YPERSELE ARGUES THAT BELGIAN POLICY IS ALSO JUSTIFIED IN STRICTLY ECONOMIC TERMS. THE BALANCE OF PAYMENTS IS HOLDING UP WELL AND SHOULD BE NEAR EQUILIBRIUM FOR THE YEAR. THE ALL-IMPORTANT CURRENT ACCOUNT IS LIKEWISE IN GOOD SHAPE. THIS INDICATES THAT BELGIUM REMAINS COMPETITIVE ON WORLD MARKETS. THUS, HE HOLDS THAT THERE HAS BEEN AND REMAINS NO ECONOMIC JUSTIFICATION FOF DEPRECIATING THE FRANC, DESPITE THE COUNTRY'S ADMITTEDLY WORRISOME INFLATION RATE.

6. VAN YPERSELE ADMITS THAT THIS POLICY DOES, OF COURSE, IMPOSE AN OBLIGATION ON THE BLEGIAN GOVERNMENT TO WRING OUT INFLATION BY INTERNAL MEANS. IT IS WORKING AT TTHIS IN A NUMBER OF WAYS. LAST YEAR'S RECOVERY PLAN AND GENERAL SUASION WITH THE UNIONS SHOULD HOLD NON-INDEXED WAGE INCREASES TO BELOW 5 PERCENT THIS YEAR, HE SAID. (VAN YPERSELE FURTHER IMPLIED THAT THE GOVERNMENT WILL DO WHATEVERIS NECESSARY TO AVOID A SIGNIFICANT JUMP IN WAGES IN THE FIRST HALF OF 1977, WHEN THE CURRENT CONTROLS ARE TO LAPSE.) HE ALSO POINTS TO THE GOVERNMENT'S READNESS TO IMPOSE ELEMENTS OF AN LIMITED OFFICIAL USE

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INCOME POLICY AS EXEMPLIFIED BY TEMPORARY AJUSTMENT OF THE COST-OF-LIVING INDEX THIS SUMMER TO ELIMINATE THE WAGE EFFECTS OF ABNORMALLY HIGH FRUIT AND VEGETABLE PRICES. THE RECENTLY ANNOUNCED 1977 BUDGET (BEING REPORTED SEPTTEL) IS IN BALANCE--AS IT SHOULD BE, ACCORDING TO VAN YPERSELE, DURING A PERIOD OF REVIVAL IN THE BUSINESS CYCLE.

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7. VAN YPERSELE SEES LITTLE LIKELIHOOD OF ANY DEVELOPMENTS IN
AT LEAST THE SHORT TERM WHICH WOULD FORCE BELGIUM TO REVIEW ITS
PRESENT EXCHANGE RATE POLICY. UNLIKE A FEW OBSERVERS IN BURSSELS,
HE DOES NOT BLEIEVE THAT THE POLICY'S DEPRESSIVE EFFECTS
INTERNALLY WILL BECOME A POLITICAL ISSUE. ACCORDING TO VAN
YPERSELE, THE SOCIALIST PARTY AND THE MAJOR LABOR UNIONS FULLY
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SUPPORT MAINTAINING THE FRANC AT ITS PRESENT LEVEL, MAINLY ON
COST-OF-LIVING GROUNDS (AND DESPITE THEIR OPPOSITION TO
CONCOMITANT WAGE CONTROLS). ECONOMICALLY, THE

RETENTION OF HIGH INTEREST RATES FOR EXTERNAL REASONS COULD SLOW THE RECOVERY--BUT VAN YPERSELE BELIEVES THAT THIS IS NOT NECESSARILY UNDERSIRABLE, GIVEN GENERAL OECD AGREEMENT THAT REVIVAL THROUGHOUT THE INDUSTRIALIZED COUNTRIES SHOULD BE MEASURED IN ORDER TO AVOID A NEW BURST OF INFLATION. AS FOR THE COST IN FOREIGN EXCHANGE RESERVES, IT IS MUCH LESS THAN INTERVENTION FIGURES MIGHT SUGGEST, HE SAID. THANKS TO THE TWO-TIER EXCHANGE MARKET, DAY-TO-DAY "LOSSES" ARE ALMOST ALL TRANSITORY, ARISING FROM THE PLAY OF LEADS AND LAGS. OVER THE LONGER RUN, ANY DROP IN FOREIGN RESERVES WILL THUS ALWAYS REFLECT ONLY BELGIUM'S DEFICIT ON CURRENT ACCOUNT FOR THE SAME PERIOD--NO MORE AND NO LESS.

8. AS FOR THE FUTURE OF THE SNAKE, VAN YPERSELE SEES NO GOOD ECONOMIC REASON WHY IT COULD NOT CONTINUE EVEN IF DENMARK--A PERIPHERAL TRADING PARTNER OF BOTH WEST GERMANY AND THE

BENELUX--DROPPED OUT. VAN YPERSELE ACKNOWLEDGED, HOWEVER, THAT A DANISH EXIT COULD HAVE SERIOUS PSYCHOLOGICAL EFFECTS. THESE WOULD BE A PARTICULAR PROBLEM FOR BELGIUM, WHOSE CURRENCY WOULD THEN PRESUMABLY BECOME THE MAJOR FOCUS OF SPECULATION.

9. FINALLY, VAN YERSELE SAID THAT THE TROUBLES BELGIUM HAS HAD THIS YEAR DEFENDING THE FRANC HAVE NOT ALTERED THE FINANCE MINISTRY'S VIEWS ON THE GENERAL FLOATING EXCHANGE RATE REGIME. HE BELIEVES, ALONG WITH MINISTER DE CLEERCQ, THAT, AS AN INTERNATIONAL MONETARY EXPEDIENT, FLOATING IS THE ONLY REASONABLE COURSE FOR THE TIME BEING. (IN THIS, HE BELIEVES THAT THE FINANCE MINISTRY IS MORE "REALISTIC" THAN THE BELGIAN NATIONAL BANK, WHICH ADVOCATES A RETURN TO FIXED RATES.) VAN YPERSELE REITERATED, HOWEVER, THAT BELGIUM CONTINUES TO FAVOR DEVELOPMENT OF MORE CONCERTED AND STANDARDIZED INTERVENTION PROCEDURES, IN ORDER BETTER TO CONTROL RAPID SWINGS IN THE VALUE OF SOME CURRENCIES.

10. COMMENT. VAN YPERSELE'S REMARKS ARE, OF COURSE, PROFESSIONALLY OPTIMISTIC. NEVERTHELESS, BARRING UNEXPECTED DEVELOPMENTS, THE GOVERNMENT APPEARS CAPABLE OF PURSUING LIMITED OFFICIAL USE

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ITS PRESENT COURSE THROUGH AT LEAST THIS FALL. ORGANIZED LABOR ALREADY BELIEVES, HOWEVER, THAT IT IS BEING SADDLED WITH AN UNFAIRLY LARGE PART OF THE SACRIFICES REQUIRED. IF INSTABILITY IN THE SNAKE EXTENDS INTO NEXT YEAR, LABOR'S INCREASING RESTIVENESS COULD SPARK SERIOUS OPPOSITION IN EARLY 1977, BRINGING INTO QUESTION THE VIABILITY OF A POLICY AIMED SOLELY AT INTERNAL CORRECTIVES TO PROTECT THE FRANC. RENNER

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